

# Apollo could access better lease yields via Atlas Air

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03/08/2022

Apollo Global Management's leasing exposure would increase if it purchased Atlas Air Worldwide (AAWW) and its subsidiary Titan Aviation Holdings.

The investment firm, with more than \$500 billion in assets under management, is in advanced talks to buy AAWW for \$3.2 billion, media sources report.

AAWW has a market capitalisation of more than \$2 billion, according to its website, and is the parent company of Atlas Air and Titan Aviation. It is the majority shareholder of Polar Air Cargo Worldwide.

Commenting on the possible tie-up, a lessor source close to the deal says: "Yields in intra-company lease deals are far stronger than where the market has been trending. This coupled with the long-term prospects for B2B ecommerce will see further growth and interest in leading cargo businesses."

New York-based Apollo, founded in 1990, has been active in aviation since at least 2012 when it set up a wholly owned leasing unit, Merx Aviation, via Apollo Investment Corporation (AINV), a NASDAQ-listed business development company.

Since its inception, Merx has purchased 208 aircraft with a portfolio value of \$6 billion.

Merx accesses capital across Apollo's \$513 billion platform. In 2021 Apollo Global Management raised \$1 billion for a new aircraft finance fund, Navigator Aviation Fund 1. It has acquired 35 aircraft over the last three years through the Apollo Navigator fund and currently has letters of intent for 25 additional aircraft.

It also closed the issuance of \$540 million of secured notes by MAPS 2021-1 Trust (MAPS). MAPS is an aircraft asset-backed securitisation, serviced by Merx, financing a portfolio of 20 Airbus and Boeing aircraft valued at approximately \$620 million.

The portfolio features 18 narrowbody aircraft and two widebody freighters, with a weighted average age of 5.8 years overall and 4.3 years excluding freighters, and a weighted average lease term of 8.4 years. The equity in the ABS was retained by Navigator.

In 2019 Apollo expanded its aviation platform through the lending platform PK Airfinance. The lender originated roughly \$1.5 billion of loans last year.

Merx owns and manages approximately 45 Boeing 737NG aircraft, 40 Airbus A320-family aircraft, four A320neo-family aircraft, five A220-100s, three 777Fs, two 737 Max aircraft, one 787, one A330 and a 747F, according to its website.

In June Merx signed a contract for its first conversion, a Boeing 737-800SF, with Aeronautical Engineers. The 2007-vintage aircraft, previously operated by Tui and acquired recently from KV Aviation, is owned by a fund managed by affiliates of Apollo and serviced by Merx.

Titan Aviation, founded in 2009, has grown to 33 owned and managed aircraft, on lease to customers worldwide with a book value of over \$1.5 billion.

In 2019 Titan Aviation and US private investment firm Bain Capital Credit formed Titan Aircraft Investments.

Under the joint venture, Bain Capital and Titan committed to provide \$360 million and \$40 million of equity capital, respectively, to acquire aircraft over the next several years with an anticipated portfolio value of approximately \$1 billion.

Titan Aviation provides management services to the joint venture, including aircraft acquisitions, lease management, passenger-to-freighter aircraft conversion oversight, technical expertise and disposal of aircraft.

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Atlas Air has a fleet of 77 aircraft, comprising mostly Boeing 747s freighters, but it also owns 767-300s, 737-800s and a sole 777.

Atlas Air reported net income of \$493.3 million in the 12 months ended 31 December 2021, compared with \$360.3 million in the same period in 2020. Adjusted EBITDA grew to \$1.1 billion in 2021 compared with \$844.2 million in 2020.

For the three months ended 31 March, net income totalled \$81.5 million.

Apollo Global has made various aviation investments during the past few years. It recently invested €500 million into Air-France-KLM for a pool of spare engines dedicated to the airline's engineering and maintenance activities. The asset-backed "capital solution" is intended to help Air France-KLM to deleverage and improve its borrowing costs.

The investment firm is also now one of Aeromexico's largest shareholders, along with Delta Air Lines, following the Mexican airline's restructuring process in 2020.

Aeromexico filed its Chapter 11 petition in June 2020, and two months later, Apollo Funds agreed to provide a \$1 billion debtor in possession term loan facility, of which approximately \$650 million was converted into equity in the reorganised Aeromexico.

In 2018 Sun Country was sold to Apollo Global Management, and the airline later completed a public offering in March 2021, raising \$225 million.

Apollo and Merx have tried to increase their leasing exposure through other platforms. They were bidders for Fly Leasing in 2021 and one of the two finalists in the running for the sale of the aviation arm of DVB Bank.

In 2019, or two years before a deal was struck with AerCap, Apollo also was connected with the possible purchase of GECAS.

## **One 747**

AAWW's management team comprises president and chief executive officer John Dietrich; chief operating officer James Forbes; general counsel and secretary Adam Kokas; chief financial officer Spencer Schwartz and chief commercial officer Michael Steen.

The company is the brainchild of Michael Chowdry, who saw an opportunity in the air cargo sector and founded Atlas Air, which began by leasing freighter aircraft to other airlines on an Aircraft, Crew, Maintenance and Insurance (ACMI) contract basis.

Atlas began operations in 1993 with one aircraft, a Boeing 747-200. During the 1990s, Atlas experienced substantial growth as customers realised the benefits of long-term leasing to meet their demands.

In 1997, Atlas placed an order for 10 new 747-400 freighters, with an option to purchase up to 10 more.

By 1998, demand for its services was so strong that Atlas had increased its order to 12 747-400s. By the end of 2000, the Atlas fleet had grown to a total of 36 aircraft.

In February 2001, AAWW formed its current holding company structure with Atlas Air as a wholly owned subsidiary. In November of that year, Atlas Air Worldwide acquired Polar Air Cargo, an all-cargo, scheduled-service carrier, from GE Capital Aviation Services (GECAS).

After restructuring in 2004, the company began trading on NASDAQ as AAWW in 2006 and was also named to the Russell 2000 Index.

In September 2006, the company launched a generational re-fleeting initiative by entering an order for new technology 747-8 freighters.

In 2007, Polar Air Cargo Worldwide closed a strategic transaction with DHL Express that gave DHL a 49% equity interest, including a 25% voting interest, in Polar, which operates an international express air cargo network.

In 2011, Atlas Air took delivery of its first three next-generation 747-8 freighters.

In January 2012, Atlas Air secured Ex-Im Bank-backed financing for six additional 747-8Fs, financing that provided significant savings in its ownership cost for these assets. Atlas took delivery of four of these 747-8Fs in 2012 and two in 2013. Atlas Air Worldwide also joined the S&P SmallCap 600 Index in 2013. In addition, its Titan dry leasing subsidiary acquired the company's first three 777 freighters, and added three more 777s to its fleet in early 2014.

In April 2016, it completed the acquisition of Southern Air.

The following month, it announced a strategic, long-term relationship with Amazon to provide and operate 20 Boeing 767-00 converted

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freighters in support of the continuing expansion of Amazon's e-commerce business and the enhancement of its customer delivery capabilities.

In February 2019, the number of 767-300 freighters in CMI and dry lease service for Amazon fell to 19 following the loss of an aircraft. In September 2019, the number of 767-300 freighters in CMI service for Amazon was reduced to 17 with the early termination of CMI services for two aircraft. Three additional 737-800s entered CMI service during 2020, increasing the current number to eight.

In December 2019, Atlas entered into an agreement with Bain Capital Credit to form a joint venture to develop a diversified freighter aircraft dry leasing portfolio with an anticipated value of approximately \$1 billion.

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